

The Germany-Serbia Remittance Corridor

Challenges of Establishing a Formal Money Transfer System

*José De Luna Martínez
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Foreword

The flow of migrants' remittances to developing countries has increased significantly. While in 1995 developing countries received \$63 billion dollars in remittances, in 2005 remittances flows amounted to \$160 billion dollars. In recent times, remittance flows to developing countries have become larger than private capital inflows and official aid. Studies by the World Bank show that remittances constitute an increasingly important source of funds for low-income households in developing countries. Many families in receiving countries often depend on remittances to cover day-to-day living expenses, to provide a cushion against emergencies or, in some cases, even as capital for making small investments.

At the same time, there are concerns on two points: that remittance transfers are conducted through informal channels; and when conducted through formal channels, financial institutions may face a high cost of compliance with international standards on Anti-Money Laundering and Combating the Financing of Terrorism.

Against this background, the Financial Market Integrity Unit (FSEFI) of the World Bank has launched a series of studies to expand existing knowledge on workers' remittances to developing countries, particularly on the channels for remittance flows. These studies seek to document how migrants send money home, what financial instruments are available in the marketplace to transfer funds, what are the uses of these funds, what regulatory requirements apply to money transfer operators, what are the costs of transferring remittances, and how flows are measured.

This report analyzes the Germany-Serbia remittance corridor. It examines why remittance flows take place outside the financial system and presents a series of practical recommendations to promote the use of financial institutions to transfer money home, reduce fees, encourage greater competition which will enhance the developmental impact of remittances, and improve the regulation and integrity of the money transfer industry.

The main outcome of the remittance corridor study work is to derive best policy options in terms of meeting international standards on money transfers, while continuing to promote remittance transfers through the financial institutions. This report provides new information which can be the basis for policy dialogs between authorities and the private sector institutions in Serbia with a view to improve integrity of remittance flows and deepening and broadening the financial sector.

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The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the view of the people that were interviewed or the World Bank, its Executive Directors, or the countries they represent.

Abbreviations and Acronyms

AML	Anti-Money Laundering
ATM	Automated Teller Machine
BA-CA	Bank Austria Creditanstalt
BAFIN	Federal Financial Supervisory Agency
BoP	Balance of Payments
BRA	Bank Rehabilitation Agency
BRCA	Bilateral Remittance Corridor Analysis
CFT	Combating the Financing of Terrorism
CTA	Current Transfer Account
DM	Deutsche Mark
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FRY	Former Republic of Yugoslavia
FX	Foreign Exchange
GDP	Gross Domestic Product
HTA	Hometown Association
HVB	HypoVereinsBank
IADB	Inter-American Development Bank
IFT	Informal Funds Transfer
IMF	International Monetary Fund
INCSR	International Narcotics Control Strategy Report
ML	Money Laundering
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MTOs	Money Transfer Operators
NAFIN	Nacional Financiera
NBS	National Bank of Serbia
NBY	National Bank of Yugoslavia
OFIs	Other Financial Institutions
RSP	Remittance Service Provider
SDB	Serbian State Security Service
STRs	Suspicious Transaction Reports
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TF	Terrorist Financing
U.S.	United States
UN	United Nations
US\$	United States Dollar
WU	Western Union
€	Euro

Currency Equivalents

(Exchange Rate Effective April 2005)

Germany	1 Euro = 1.29 US\$	1 US\$ = 0.77 Euro
Serbia	1 Dinar = 0.0159 US\$	1 US\$ = 62.99 Dinar

Introduction and Objectives of the Study

It is estimated that in 2004 Serbia received US\$2.4 billion dollars in remittances sent by Serbs working overseas, particularly in Germany, the United States, Austria, Switzerland, and Italy.¹ This amount represented 12 percent of Serbia's GDP, making Serbia one of the largest recipients of workers' remittances in the world, as measured by the ratio of remittances to GDP (see Appendix B for an international comparison). Moreover, remittances represented 65 percent of total exports during the same year and vastly exceeded the amount of foreign direct investment (\$1.4 billion).

Due to the lack of data it is not possible to determine the exact amount of remittances that originate from each of the main countries. However, it is believed that Germany—which hosts the largest community of Serbs—constitutes the largest source country of remittances to Serbia, contributing with 20 percent of all remittance flows. Approximately 568,000 Serbs live in Germany, making Serbs the third largest group of foreigners in Germany after the Turks and the Italians.

Remittances have a large impact on the Serbian economy. It is believed that remittances contributed to the rapid increase in private consumption, bank deposits, foreign exchange reserves, and real GDP in recent years. Despite the enormous importance of remittances for the Serbian economy, few studies have been conducted to analyze the characteristics of remittance flows to Serbia and to assess their positive or negative effects.

1. In this paper, the term “remittances” refers to the money that migrant workers send to their relatives. These flows are usually reported under the categories of workers' remittances, compensation of employees and migrants' transfers in the IMF's Balance of Payment Statistics.

Little information is publicly available about the financial instruments used by the Serbian diaspora to transfer money to Serbia or the fees paid by senders and recipients of remittances. Moreover, insufficient analyses have been conducted to measure the impact of remittances on poverty alleviation and economic growth. Furthermore, not much is known about the geographical distribution of remittances in Serbia and the locations overseas where most transactions originate.

This study provides an overview of remittance flows from Germany to Serbia (it does not include Montenegro).² By focusing only on this remittance corridor, instead of multiple corridors, this study tries to cover with more depth the specific characteristics of remittance flows to Serbia. The report focuses on the following questions:

- How do Serbs in Germany transfer money to their home country?
- What instruments are used to send money?
- What is the total amount of remittances sent by Serbs in Germany every year and how are flows measured?
- What percentage of remittances is channeled through formal Remittance Service Providers (RSPs) and what percentage through informal channels?
- Who are the main players and what products are available in the marketplace?
- What are the fees paid by Serbs for their remittance transactions?
- What is the regulatory environment for money transfer companies in both countries?

Due to the lack of published data and research on this remittance corridor, the main source of information for this study was a series of interviews conducted by the authors with ministries and agencies responsible for migration, labor, foreign affairs, national statistics, anti-money laundering, and financial sector supervision in Germany and Serbia in April 2005. Meetings were also held with representatives of the Serbian diaspora in Germany and with selected private banks and money transfer companies in both countries. The authors are grateful to all persons that kindly accepted to participate in this study and share their knowledge.

This report is part of a larger project on bilateral remittance corridors initiated by the World Bank. As in the earlier studies under the Bilateral Remittance Corridor Analysis (BRCA) initiative, the analysis of remittance corridors comprises three fundamental stages:

2. The territory of Serbia and Montenegro is a single sovereign state. Following the dissolution of the Socialist Federal Republic of Yugoslavia in 1991, this territory was initially admitted as a member of the United Nations under the name “Federal Republic of Yugoslavia” on November 1, 2000. Following the adoption and promulgation of the Constitutional Charter of Serbia and Montenegro by the Assembly of the Federal Republic of Yugoslavia, the official name of the “Federal Republic of Yugoslavia” was changed to “Serbia and Montenegro” on February 4, 2003. The state of Serbia and Montenegro consists of two republics, Serbia and Montenegro, each of which has some of the characteristics of independent states. This study focuses only on Serbia. The two republics are vastly different. Montenegro contributes less than 10 percent to the country’s GDP and has a population of around 700,000, whereas Serbia has a population of approximately 8 million. Montenegro’s official currency is the Euro, whereas Serbia uses the Dinar.

- The First Mile, or origination stage, in which immigrants or other residents, including guest workers, in the sending country make their decisions regarding the amounts and frequency of their remittances to be sent to their home countries and the choice of instruments and service providers to transfer the money;
- The Intermediary Stage, through which the funds are moved by RSPs in the sending country to RSPs in the recipient country; and
- The Last Mile, or distribution stage, in which the funds are paid to beneficiaries.

The report argues that despite the availability of modern payment platforms to transfer money from Germany to Serbia through financial institutions and the fact that practically all documented foreign workers in Germany have a bank account, it is estimated that only 50 percent of all remittances from Germany to Serbia take place through remittance service providers (RSPs), such as banks and licensed money transfer companies. Serbs living in Germany prefer to bring the money in cash when they visit their country or send it home through other informal channels (for example, bus drivers, or friends and relatives traveling to their home country).

The extensive use of informal channels to send money reduces the developmental impact of remittances in Serbia, because remittances through informal means do not have the same multiplier effect as bank deposits. If more remittances were received in Serbia through banks or other financial institutions, the Serbian financial system would be deeper, thus increasing the availability of resources to finance economic activities in Serbia. Moreover, the use of financial institutions to remit money would broaden the access of recipient households in Serbia to more financial services that would help them improve their living standards. As the experience of other developing countries illustrate, a larger availability of financial products specifically designed for migrants and remittance-receiving households—such as consumer loans, mortgages, life and non-life insurance, and so forth—would help maximize the developmental impact of remittances in Serbia.

The report argues that there are various factors that discourage migrants from using financial institutions to send money home, including:

- Limited (but growing) trust of Serbs in their banking institutions,
- High fees for using remittance products offered by financial institutions,
- Low competition in the remittance marketplace, and
- Limited (but growing) level of bank penetration in Serbia.

This study also argues that there is also a need to increase the supply of financial products available to Serbs that send or receive remittances on a regular basis. Financial institutions do not offer Serbs in Germany attractive instruments to invest in Serbia, acquire real estate, or contribute to the development of their towns. Investments by the Serbian diaspora have occurred outside the financial system. Similarly, by law, Serbian banks cannot offer consumer credit or mortgages to remittance-receiving households, unless they have a regular source of income from Serbia.

Finally, it is important to improve data on remittance flows between Germany and Serbia. Given the large amount of remittance flows that Serbia receives every year, better information on remittances is needed to assess their impact on consumption, savings, and investment.

Moreover, improved data is needed for the formulation of policies and to assess the impact of remittances on poverty alleviation. Better data is also needed to monitor the integrity of the financial system and detect as well as prevent abuse by remittance senders or RSPs related to money laundering (ML) or terrorist financing (TF) activities.

The report concludes with a set of specific recommendations on policy options to facilitate the transfer of remittance flows from the informal channels to licensed or registered financial institutions, thereby maximizing the developmental impact of remittances, reducing remittances fees, improving data collection practices, strengthening the regulation and supervision of the money transfer industry, and preventing ML and TF.

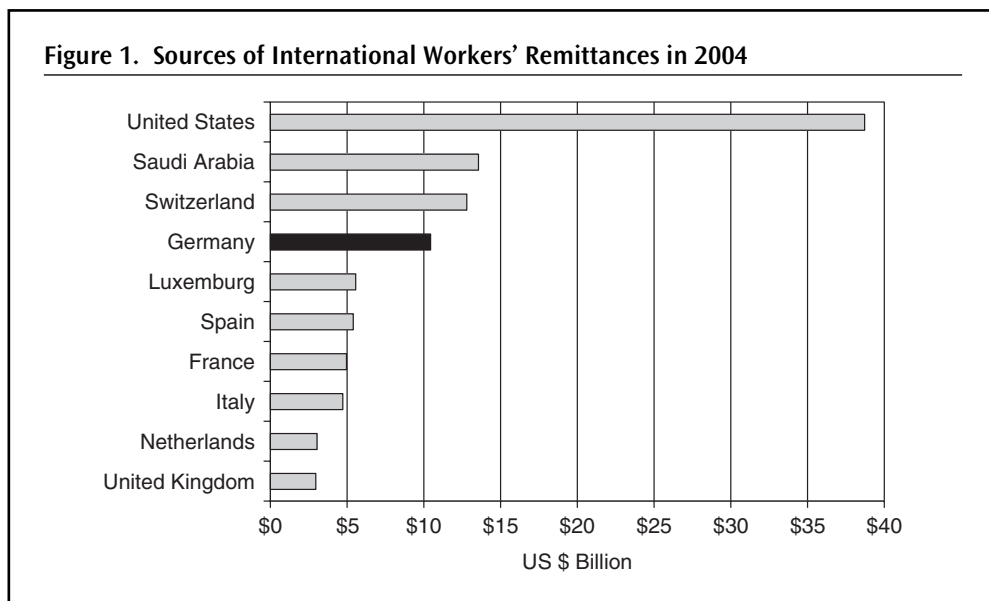
The First Mile

This chapter analyzes the main characteristics of the Serbian community in Germany and describes the different channels through which Serbs send money back home. It also analyzes which types of financial institutions provide remittance services in this corridor and what products are available in the marketplace.

Serbian Diaspora in Germany

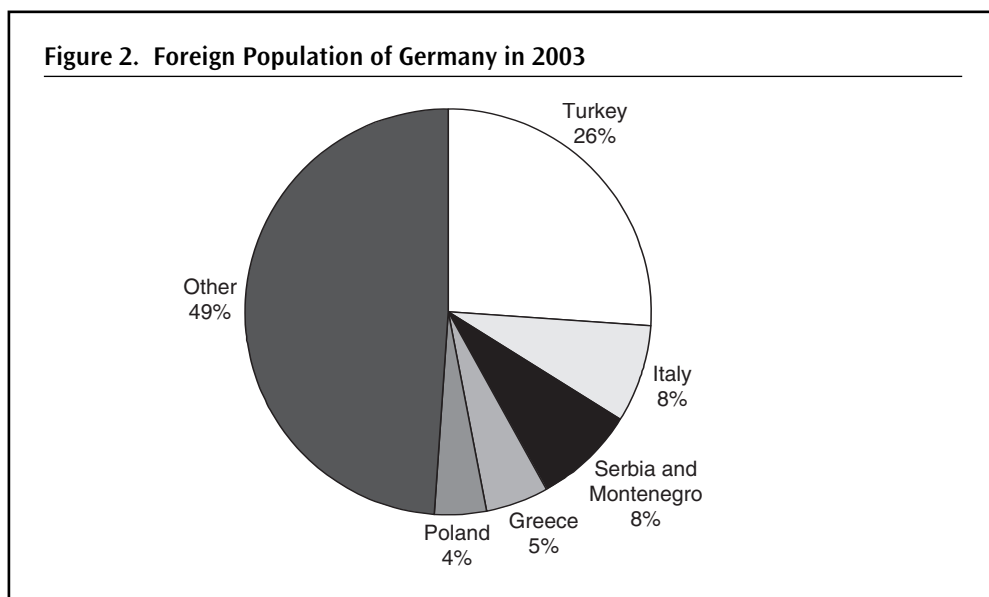
At the end of 2003, the number of foreigners living in Germany totaled 7.3 million people, which represented 8.9 percent of Germany's total population, making Germany the country with the largest number of foreigners in the European Union in absolute terms and the country with the fifth largest number of foreigners per capita in Europe, after Luxembourg, Latvia, Estonia, and Switzerland. Moreover, due to its large foreign population, Germany is currently the fourth largest source of workers' remittances in the world in absolute terms, after the United States, Saudi Arabia and Switzerland. As illustrated in the following figure, it is estimated that in 2004 foreign workers in Germany sent \$10.4 billion to their relatives in their home countries.

As illustrated in Figure 2, Serbs constitute the third largest group of foreigners in Germany after the Turks and the Italians. According to the Registration Office for Foreigners in Germany, at the end of 2003, 568,240 Serbs were living in Germany. It is important to note that not all Serbs living in Germany were born in Serbia. Of the group of Serbs living in Germany, 112,507 persons (20 percent of total) were born in Germany and kept their Serbian nationality, since the German law does not automatically grant German nationality to children born in Germany of foreign parents.

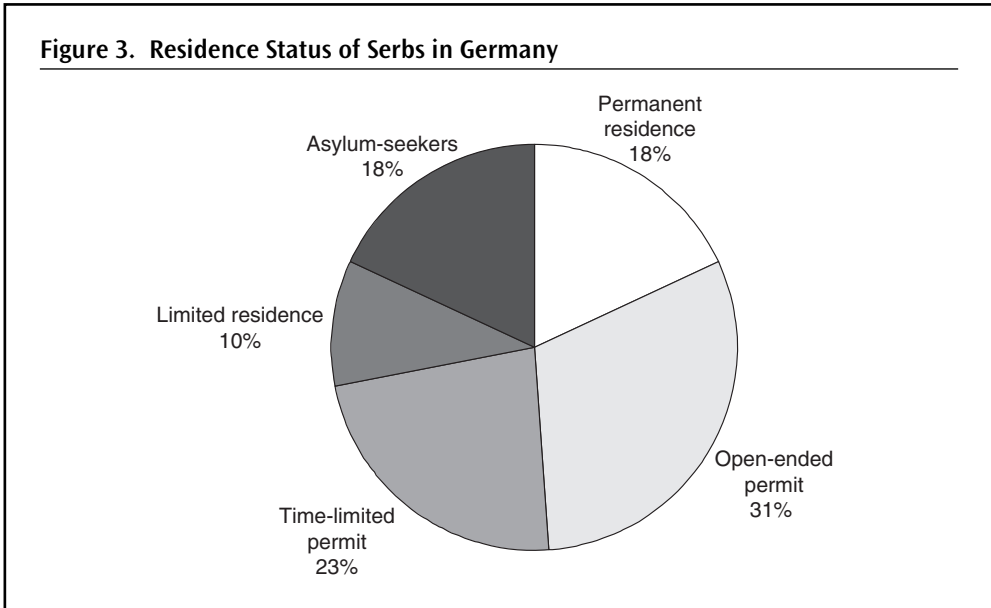


Source: IMF (2005): Balance of Payment Statistics.

According to the German migration authorities, at the end of 2003, Serbs living in Germany had the following residence status: 18 percent had permanent legal residence, 23 percent had a time-limited permit to stay and work in Germany, 31 percent had an open-ended permit to live and work in Germany, 10 percent had a residence permit limited to certain activities (studies or temporary work), and 18 percent were asylum-seekers.



Source: Bundesamat für Migration und Flüchtlinge (2004).



Source: Bundesamt für Migration und Flüchtlinge (2004).

The Serbian population is concentrated in three federal states in Germany, Nordrhein-Westfalen, Baden-Württemberg, and Bayern, which together host 64 percent of the Serbian diaspora. Within these states, there is a high population of Serbs in the cities of Düsseldorf, Stuttgart and Munich. As illustrated in Table 1, 28 percent of the Serbs in Germany were working and paying contributions to the social security system in 2003.

At this time, it is not possible to know whether the number of Serbs working in Germany might be actually larger due to unaccounted and undocumented workers. There are no official estimates on the number of illegal workers in Germany and their origin or nationality. In addition, when Serbs acquire the German nationality they are automatically registered as Germans in official statistics.

According to the Registration Office for Foreigners in Germany, on average, Serbs have lived in Germany for 16.3 years and more than 65 percent of Serbs have lived in Germany for more than 10 years. It is, however, impossible to track the exact numbers of Serbs living in Germany before 2003, because official statistics only contain aggregate figures for citizens from the former Yugoslavia, which until 1991 consisted of five republics.³ Nonetheless, the analysis of the migration flows from the former Yugoslavia may help to explain the reasons for the significant growth of the Serbian population in Germany, keeping in mind also that Serbia was the largest of the five republics of the former Yugoslavia.

3. The former Socialist Federal Republic of Yugoslavia was dissolved in 1991, and its five constituent republics—Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro, and Slovenia—became independent states. Serbia and Montenegro is the largest of those republics.

Table 1. Serbs and Montenegrins Working in Germany, 2003

Federal State	Serbs and Montenegrins (S&M)	S&M Working and Subject to Social Security
Nordrhein-Westfalen	149,206	35,370
Baden-Württemberg	120,161	48,577
Bayern	105,288	36,547
Hessen	58,976	17,835
Niedersachsen	42,125	7,731
Berlin	27,858	4,949
Rheinland-Pfalz	23,400	5,498
Hamburg	21,300	4,163
Schleswig-Holstein	8,443	1,822
Saarland	5,046	747
Bremen	4,965	938
Sachsen-Anhalt	4,012	202
Sachsen	3,286	399
Thüringen	2,417	156
Brandenburg	1,718	240
Mecklenburg-Vorpommern	1,690	81
Germany	579,891	65,255

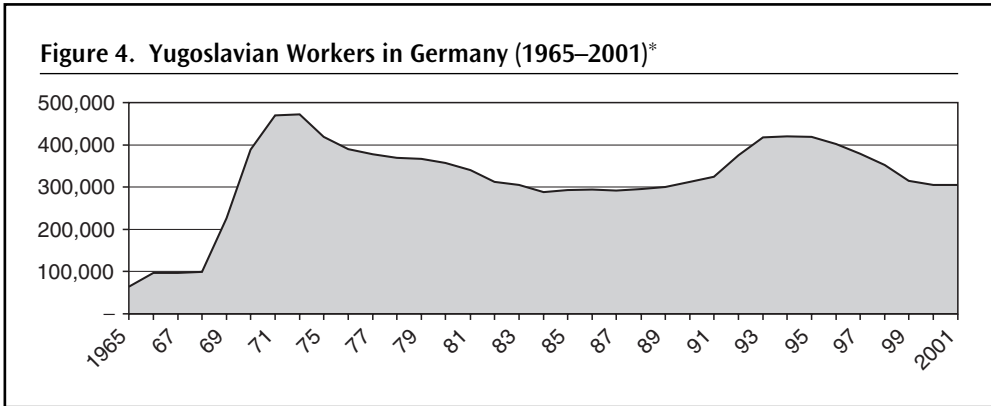
Source: Bundesamt für Migration und Flüchtlinge (2004).

Migration Flows from Yugoslavia to Germany

Historically, the migration flows from the former Yugoslavia to Germany were driven by various factors. During the late 1960s and early 1970s, these flows increased significantly, particularly after Germany and Yugoslavia signed an agreement on “guest workers” in 1969, that allowed Yugoslavs to work temporarily in Germany in industries requiring both unskilled and skilled labor. As illustrated in the following figure, the number of Yugoslavian workers in Germany increased from 99,000 in 1968 to 469,000 in 1971.

The first generation of foreign workers consisted mostly of single men between the ages of 20 to 40. The number of women immigrating to Germany by themselves increased in subsequent years. In 1973, Yugoslavian citizens accounted for 17.7 percent of foreigners living in Germany, constituting the second largest group of foreigners after the Turks. Most foreign workers were employed in the states of North-Rhine/Westphalia, Baden-Württemberg, Bavaria, and Hessen, where the core of industrial activities is concentrated.

Under the agreement on “guest workers,” foreign workers were supposed to return to their home countries and be replaced by new ones once their contracts expired. In practice, however, many foreign workers stayed in Germany permanently. This served the interests of employers, who wanted to keep their experienced workers, and of the workers



*It includes all workers contributing to social security.

Source: Statistisches Jahrbuch.

themselves, who increasingly came to regard Germany as their home and who wished to take advantage of the better income opportunities.

As a result of the oil shortage and subsequent economic slowdown in the early 1970s, the German government suspended the recruitment of foreign labor from all non-EC countries in 1973. As a result, from 1973 to 1988, the number of Yugoslavian workers in Germany declined from 471,000 to 295,000. The ban nevertheless influenced many foreign workers to stay in Germany permanently, as it would have been more difficult or impossible for them to return to their home country temporarily and then come back to Germany to work. During this period, family reunification and the birth of Serbian children in Germany increased the total number of Serbs in Germany.

With the fall of socialist regimes in Central and Eastern Europe beginning in 1989, a new flow of migration from Serbia to Germany occurred. This trend was further exacerbated by the rapid increase in the number of refugees arising from the disintegration of the former Yugoslavia—the war in Croatia in 1991 and the confrontation that began in Bosnia and Herzegovina in 1992, in particular. Thus, the number of Yugoslavian workers in Germany increased from 300,000 in 1989 to 420,000 in 1994. From 1995 to 2001, the number of Yugoslavian workers in Germany declined from 418,000 to 304,000 following the general trend of declining migration through Germany’s borders as well return of workers to their home countries.

How do Serbs Transfer Money Home?

As part of the “guest workers” agreement, the former Federal Republic of Germany and the former Republic of Yugoslavia established a mechanism to allow workers to transfer money to their relatives in Yugoslavia through banking institutions. Under this mechanism, Yugoslav banks were allowed to open branches (or representative offices) in Germany to process money transfers (including pension payments) to Yugoslavia. Banks usually

Channel	Who Collects Remittance Transfers in Germany?	Who Makes the Payments in Serbia?	Total Remittance Flows in US \$	As % of Total Remittance Flows
Formal	Money transfer companies and their agents	Banks (as agents of MTOs)	\$48 million	10%
	Banks (mostly pension payments)	Banks	\$190 million	40%
Informal	Migrants, other human couriers and bus drivers	Migrants, other human couriers and bus drivers	\$238 million	50%
Total			\$476 million	100%

Sources: World Bank staff estimates with data from National Bank of Serbia and Western Union Germany.

offered this service at a minimum (or no cost) in order to attract new deposits and foreign exchange currency. This mechanism operated well during the 1970s and 1980s, providing rapid and reliable services to the Yugoslav community in Germany.

This system had to be dismantled in 1992. As part of the economic sanctions imposed by the United Nations against Serbia in 1992 (UN Resolution 757), the German authorities had to close all branches and offices of Serbian banks. This forced the Serbian diaspora in Germany, and elsewhere, to look for alternative ways to transfer money home, including the use of cash couriers and bus drivers to transport cash from Germany and other European countries to Serbia.

The use of informal channels to transfer money did not stop even after the UN economic sanctions against Serbia were lifted in 1995. In fact, due to the loss of confidence in the domestic banking institutions, caused by the failure of banks and the freeze of saving deposits in 1994, the use of informal channels became much more widespread among the Serbian diaspora. In order to avoid having their money deposited in a bank in Serbia, Serbs living abroad were reluctant to send money home through financial institutions. Although confidence in the banking system has improved in recent years, as evidenced by the growing amount of bank deposits, it has not been fully restored and most Serbs still prefer to use informal mechanisms to transfer money home.

The 2004 figures on remittance flows from Germany to Serbia indicate that nowadays the use of informal channels still remains the most important channel used by Serbs to transfer money home. As illustrated in Table 2, it is estimated that the total remittance flows from Germany to Serbia amounted to \$476 million dollars in 2004.⁴ Of this amount,

4. The data from commercial banks comes from the National Bank of Serbia (NBS) and the data on money transfer companies was provided by Western Union-Germany. The data on informal channels was estimated following the same coefficient that NBS applies to transactions at exchange bureaus in Serbia. Please see Chapter 3 for a detailed description of data issues.

50 percent of the money transferred was channeled through financial institutions, that is, the transactions were initiated at a financial institution in Germany and paid through another financial institution in Serbia.

The data in Table 2 indicates that many Serbs in Germany continue sending money home through bus drivers or relatives and friends that travel to Serbia. Given the proximity between these two countries, migrants bring their money in cash to their relatives in Serbia, especially during major holiday seasons. Moreover, many Serbs who receive a pension from Germany travel back to Germany by car every two or three months to collect their payments in person.

Neither Germany nor Serbia has the data to track the evolution and composition of remittance flows during the past years.⁵ The lack of historical data is a major obstacle to identifying the channels through which Serbs have been sending money home. Moreover, the lack of data makes it difficult to assess the impact of remittances on poverty and financial system development. At this time, the National Bank of Serbia (NBS) is working towards improving its data on remittance flows, as discussed in the third chapter.

Who Are the Main Market Players in the Formal Remittance Corridor?

By law, only licensed financial institutions can offer money transfer services to the public in Germany. In April 2005, there were 39 licensed money transfer companies in Germany, but only one, namely Western Union, was providing services to Serbia. Although several commercial banks in Germany are active in this remittance corridor, they were focused mostly on the transfer of pension payments to Serbia not on the person-to-person money transfers.

Western Union, the largest money transfer company in the world, conducts most of the person-to-person money transfers from Germany to Serbia that take place through the financial system. Western Union has established a large network of agents to collect and make international payments between Germany and Serbia. In Germany, Western Union has business partnerships with Deutsche Postbank and Reisebank, two large financial institutions with a large network of branches throughout Germany, which act as collecting (and also payment) agents for international money transfers. Taken together, the 6,485 branches of Deutsche Postbank and Reisebank give Western Union a market presence in practically all cities, major towns, airports, and main train stations in Germany.⁶

5. Unlike migration figures, which Germany records meticulously, there are no figures on the flow and composition of remittance flows from Germany to Serbia. Data from the Deutsche Bundesbank does not capture remittance transactions in a way that allows identification of the number and volume of remittance transactions to Serbia.

6. Western Union is considering new partnerships with other financial institutions in Germany, including savings and cooperative banks.

Once a transaction has been initiated at any of Western Union's agents in Germany, the funds become available to beneficiaries in Serbia immediately.⁷ Western Union started operations in Serbia in 2001. Since then, it has established business partnerships with 3 agents (EKI Transfers, Société General Bank, and Postal Saving Bank) and 36 (out of 41) commercial banks that act as sub-agents, giving it in practice 1,122 points of payment throughout 222 cities and towns in Serbia⁸ (see Appendix C).

At this time, Western Union is the only money transfer operator in Serbia. Western Union considers Serbia as one of the most attractive markets in Eastern Europe and the business has enjoyed double and triple digit growth in the last few years as far as the number of transactions, total volume and number of locations are concerned. In 2004, remittances coming from Germany through Western Union amounted to €47.6 million with a total of 107,542 transactions.

Money Transfer Services Offered by Commercial Banks in Germany

Commercial banks in Germany (regardless of whether they have an agreement with a money transfer company or not) also independently provide their own money transfer services to their account holders who wish to send money overseas. Thanks to international bank agreements, correspondent bank relationships, or payment systems, money can be transferred from any account at a commercial bank in Germany to any other account at a bank located overseas that is linked to the SWIFT or EUROGIRO payment platforms. Money is transferred through electronic means and it becomes available to beneficiaries in Serbia in two to four business days. In Germany, customers can initiate their remittance transactions at any bank branch.

Despite the modern infrastructure supporting international payments from Germany to the rest of the world, the use of banking institutions in Germany to transfer person to person remittances to Serbia remains limited. Excluding all transactions conducted on behalf of Western Union, banks in Germany focus on the transfer of pension payments to Serbia, which is money transferred by an institution to Serbian citizens in Serbia on a regular basis, as illustrated in Table 2.

The limited use of banks by the Serbian diaspora in Germany is surprising, given the large penetration of banks in Germany. The banking density of Germany is one of the

7. Under the Western Union system, when an agent collects money from a customer, it must register it immediately in a global database which is accessible on-line to all other agents around the world. The collecting agent gives its customer a confirmation code, who communicates it to the beneficiary, usually through a phone call. As soon as the beneficiary receives the confirmation code, he can go to any Western Union agent to receive his funds. The payment agent will verify the transaction in the global database and proceed to make the payment usually with its own resources. After a few days, the collecting and payment agents will settle all their transactions with Western Union. This system, thus, allows the rapid payment of money transfers to customers despite the fact that the settlement of transactions may take place some days later.

8. The main conditions for Western Union services are the following:

- Western Union in Serbia allows money to be received only; sending money abroad is not possible.
- Payments are in cash and in Euros only.
- Recipient pays no fees.
- All fees are paid by sender.

largest in the world with approximately 2,100 inhabitants per bank office.⁹ As illustrated in Table 3, at the end of 2003, there were 49,710 bank branches in Germany through which customers could initiate remittance transactions to any part of Europe and most other countries in the world. Germany is also a country where banks have reached almost universal coverage, because all workers must have bank accounts to receive their salaries.

The limited use of money transfer services offered by German banks to Serbs is an issue that requires much more research. There seem to be four particular reasons why German banks are not being used by Serbs to transfer money home.

The first reason is related to the different levels of bank penetration between Germany and Serbia. While all documented migrant workers in Germany have a bank account (they must have it to be able to receive their salaries and other benefits),¹⁰ in Serbia a large number of workers—especially those employed in the informal economy—receive their payments in cash and usually do not have a bank account. Moreover, while in Germany almost all adults (people 20 years old and above) have a bank account, in Serbia it is estimated that only 37 percent of adults have a bank account, thus limiting the possibility to make money transfers from a bank account in Germany to a beneficiary in Serbia who does not have a bank account.¹¹

Secondly, so far Western Union offers better services than German banks in terms of the time by which funds become available in Serbia. For Western Union, it takes only a few minutes to make funds available at any of its payment points throughout Serbia (or elsewhere), whereas for most German banks it takes two to four business days.

Thirdly, whereas most banks in Germany only provide remittance services to account holders, Western Union provides services to practically any person in Germany with an official identification, such as a national passport.

Finally, German banks do not seem to be interested in investing in this remittance corridor in order to develop new remittance products and services. German banks are discouraged from entering into the remittance market to Serbia due to the low volume of transactions (and therefore low profits for banks) in this corridor, as well as the possible

Table 3. Overview of the German Banking Sector in 2003

Description	2003
Number of banks	2,465
Number of domestic branches	36,599
Number of domestic bank offices	39,064
Number of domestic bank offices incl. Deutsche Postbank AG	49,710
Number of foreign branches	736

Source: Association of German Banks.

9. Universal banks, which engage in all types of banking business, are predominant in the German banking industry. The private banks in Germany are categorized into six types: large banks, regional banks, private bankers, mortgage banks, banks with special functions, and foreign banks. The Association of German Banks. Website <http://www.german-banks.com>

10. In Germany, all workers paying contributions to or receiving money from the social security system must have a bank account.

11. According to the National Bank of Serbia, at the end of May 2005 there were 2.2 million savings and deposit accounts at banks in Serbia.

Box 1. SMART Padala: The World's First International Cash Remittance Service Using Mobile Phone

One of the most innovative ways to send remittances to Philippines for the 8 million OFWs (overseas Filipino workers) is through the use of mobile phones. SMART Communication Inc., the Philippines' leading wireless service provider with 20.8 million subscribers on its GSM network, launched this service in the fall of 2004. Under this system, the sender goes to the remittance company and turns over the cash to remit money to the loved ones in the Philippines. The remittance company then sends a cash value to the beneficiary's cash wallet in real time via SMS (short messaging system). Once the SMS notification is received, the recipient can:

- Cash the money from an ATM, a SMART wireless center, SM malls, Sea Oil gasoline stations, Tambunting pawnshops and Mc Donald's chains
- Use to purchase in MasterCard merchants
- Do mobile payments in partner merchants
- Load air time
- Transfer cash value to other subscribers

Among the benefits for the consumers:

- Faster delivery of remittances—the beneficiary instantly receives remittance through SMS
- SMS notification for every transaction
- The system allows transmittal of cash at half cost of the door-to-door money delivery
- Lower service fee for the sender and flexibility for the receiver to use cash remittance

Source: SMART Communication Inc.

reputational risks arising from possible money laundering activities that might be associated with such money transfers. Interviews with select German banks acting as Western Union's agents reveal that they are satisfied with their business partnership with Western Union which helps them to complement their existing products without having to establish a separate costly network, like the one already established by Western Union.

Products Available in the Marketplace

At an international level, there is a wide and growing range of products available at financial institutions to transfer money overseas—such as electronic transfers, money orders, drafts, “door to door service” (Dominican Republic, Vietnam), dual debit cards,¹² or even money transfers through cellular phones (Philippines, see Box 1). In the Germany-Serbia corridor, the most important product is the electronic transfer offered by banks and money transfer companies.

Western Union offers a product to send money to Serbia immediately, while commercial banks offer their account holders electronic transfers to banks in Serbia through

12. In many countries, consumers can walk into a bank or convenience store, or log on to the Internet, and buy a debit card that can be sent anywhere in the world. With a PIN code, the recipient can make an ATM withdrawal or buy goods or pay for services.

corresponding bank relationships. Banks also offer drafts and traveler checks. Because neither Western Union nor commercial banks can outsource the collection or payment of remittances to non-financial institutions, the supply of other products, such as money orders, dual cards, gift cards, and SMS is limited.

An important obstacle to the expansion of some innovative remittance-related products is the limited (but rapidly growing) number of automatic teller machines (ATMs) linked to international payment platforms (CIRRUS, VISA, VISA ELECTRON, MASTERCARD, MAESTRO, and so forth) in Serbia. In April 2005, there were approximately 200 ATMs in Serbia that provided the possibility to withdraw cash using debit or credit cards issued overseas.¹³ Most of them were located in Belgrade and other large cities. Clearly, major factors to promote further the formalization of remittance flows in this corridor would be to encourage further bank penetration in Serbia including the expansion of the existing ATM network.

13. See VISA website at <http://visa.via.infonow.net/locator/global/jsp/SearchPage.jsp>

At the Intermediary Stage

This chapter analyzes the characteristics of the formal and informal channels through which remittances are transferred from Germany to Serbia. In particular, this chapter focuses on the following three questions:

- What are the fees for money transfers through formal channels?
- What are the main regulatory requirements for money transfer operators (MTOs) in Germany and Serbia?
- What are the main informal fund transfer systems in the corridor?

Remittance Fees in the Germany-Serbia Corridor

Given the limited number of participants in the remittance marketplace, it is not surprising that the fees charged by financial institutions in Germany and Serbia to customers for person to person money transfers are high in international terms.¹⁴ For example, for the

14. In general terms, the fees associated with transferring remittances from one country to another have three components. The first component is the fee that the sender pays to the service provider in the originating country for transferring money to another country. The second component refers to the exchange rate spread (use of a higher exchange rate than the one prevailing in the market) that companies apply to convert a remittance into the local currency in which the beneficiary receives his money. The third component is the fee that the beneficiary sometimes needs to pay when he receives his money. In Serbia, banks charge a fee for depositing remittances into the beneficiary's account or for the quick payment.

**Table 4. Fees for Transferring €300 Euros from Germany to Serbia
Selected Products and Financial Institutions in 2005**

Financial Institution in Germany	Money Transfer Product	Fees Paid by Sender (€)	Max. Time to Complete the Transaction
Commerzbank	Electronic transfer–Swift	12.50	5–10 days
Deutsche Bank	Electronic transfer–Swift	15.00	Max. 7 days
Deutsche Postbank	Postal Money order	20.00	2–4 days
HypoVereinsBank	Electronic transfer–Swift	25.00	Max. 5 days
Western Union (through Postbank)	Service in minutes	26.00	15 minutes
Western Union (through ReiseBank)	Service in minutes	26.50	15 minutes
Dresdner Bank	Electronic transfer–Swift	54.00	Max. 7 days

Source: World Bank

transfer of €300 from Germany to Serbia—which is the average transaction amount sent by Serbs—Western Union charges senders €26.

Although most of the largest banks in Germany charge customers slightly lower fees than Western Union for the transfer of the same remittance amount, bank fees are still high. For instance, Commerzbank, Deutsche Bank, Deutsche Postbank, and Hypovereinsbank charge customers €12.50, €15, €20, and €25, respectively, as described in Table 4.

In addition to the fees charged to senders, banks usually apply a small foreign exchange spread (3–4 percent of the amount sent) at the time a remittance transaction is converted from Euros into Dinars.¹⁵ Moreover, most Serbian banks charge customers an additional fee if they withdraw their funds in less than 14 days after funds become available in Serbia. As illustrated in the following table, fees paid by beneficiaries of remittances vary from bank to bank in Serbia, ranging from €2.5 to €10 for amounts below €500. While there is no fee differentiation for money transfers paid in a city or in a rural location as in other corridors, fees become higher as the remittance amount increases (Hernández-Coss 2004, 2005).

Taken all together (fees to senders, exchange rate spread and fees to recipients) fees can exceed more than 10 percent of the remittance amount, depending on the institutions at which the transaction is initiated and paid. Clearly, the fees for remittance transactions through the financial system are high.

In international terms, fees charged by financial institutions in Germany for a €300 remittance transfer to some *other* non-EU countries are lower than the fees for money transfers remittances to Serbia. For example, as illustrated in Box 2, Zagrebacka Bank—a Croatian bank that has a branch in Germany—offers remittance services at no cost. By eliminating the fees on its remittance transactions, this Croatian bank seeks to attract

15. In some financial institutions, such as the Western Union's agents, it is possible to receive the money in Euros.

Table 5. Remittances—Fees Paid by Recipients in Case of Immediate Withdrawal of Funds in Serbia

Selected Banks in Serbia	Remittance Amount (Euro)				
	100	500	1,000	10,000	100,000
Hypo Alpe-Adria	10	10	10	100	1,000
Nacionalna Stedionica Banka	3.5	5	10	40	300
Raiffeisenbank	3.5	3.5	3.5	30	300
Societe Generale Yugoslav Bank	0	5	5	125	1,250
HVB Bank of Serbia and Montenegro	0.5	2.5	5	50	500
Procredit Bank	0.5	2.5	5	50	As agreed

Source: National Bank of Serbia

new Croatian customers living in Germany, expand its deposit base, cross-sell other products, and increase its foreign exchange revenue. Similarly, the branches of Turkish banks operating in Germany charge customers only €5 per transaction for money transfers below €2,500.

There are various reasons why fees in the formal Germany-Serbia remittance corridor are high. One is the lack of competition among money transfer companies (only one company provides services from Germany to Serbia). Although banks operate in this corridor with their own money transfer products, they focus on the transfer of pension payments to Serbia. Another reason is the fact that Serbian banks have not re-opened their branches in Germany (except for Komercijalna Banka that has a representative office in Frankfurt), despite the fact that UN sanctions were lifted in 1995. By not having any presence in Germany, banks in Serbia act only as payment agents in Serbia for Western Union or commercial banks in Germany.

Serbian banks could consider re-opening their branches in Germany to provide remittance services to customers in the first, intermediate and last miles, as banks in other jurisdictions do. Officials from the Komercijalna Bank have confirmed that this bank has just submitted to the German authorities all the required documents to get licensed for conducting remittances business again.

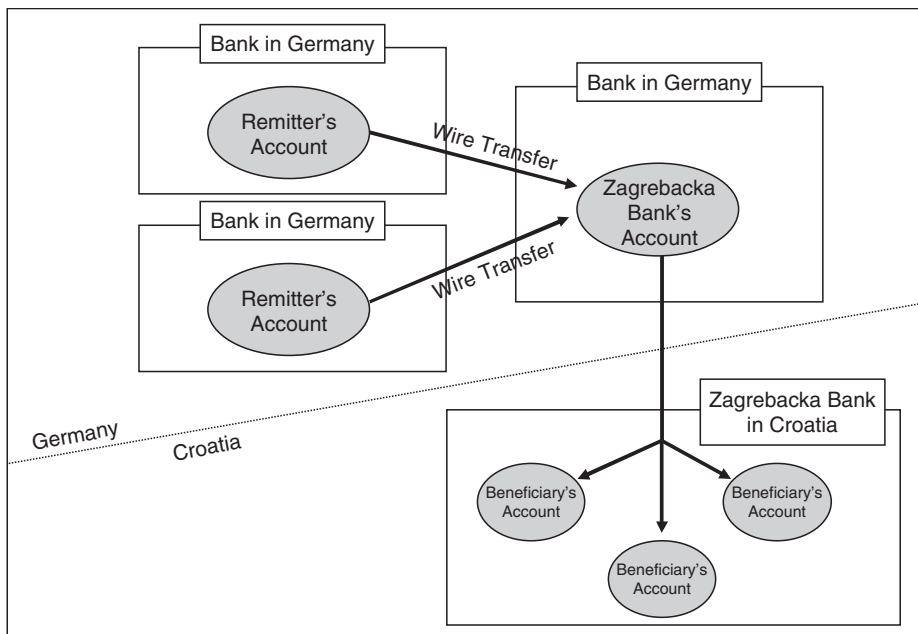
Moreover, Serbian authorities may consider encouraging European banks operating in Serbia to voluntarily apply the EU Regulation No. 2560/2001/EC for money transfers

Table 6. Fees for Sending €300 Euros from Germany to Select Non-EU Countries

Origin	Destination	Service Provider in Germany	Fee Paid by Sender
Germany	Croatia	Zagrebacka Bank	Free
Germany	Turkey	Yapi Kredi Bank	€5

Box 2. Remittances from Germany to Croatia Through Zagrebacka Bank

Zagrebacka Bank, a Croatian bank, has a branch office in Frankfurt to support customers who are interested in investing in Croatia or need to send money. People who need to send money to Croatia transfer money from their accounts in Germany to an account of Zagrebacka Bank at a German bank. Once Zagrebacka Bank receives the money, the bank bundles all money transfer requests from all customers and wires it in one transaction to Zagrebacka Bank in Croatia, which then deposits the money into the beneficiaries' accounts.



Source: Zagrebacka Banka

to Serbia.¹⁶ In the European Union, fees charged by any bank for money transfers to other EU countries can not be higher than the fees charged for domestic money transfers, provided that the payment is made in the same currency by the same institution. Because an increasing number of banks in Serbia are owned by banks established in EU countries, Serbia may discuss with those banks the feasibility of voluntarily applying the same cap on remittance fees to all remittance transfers originating in the EU to Serbia, provided this does not disturb the level-playing field in Serbia. Since Serbia desires to become an EU member

16. Regulation 2560/2001/EC on cross-border payments in euros established that with effect from July 1, 2002, "... charges levied by an institution in respect of cross-border electronic payment transactions in euro up to €12,500 [€50,000 since January 1, 2006] shall be the same as the charges levied by the same institution in respect of corresponding payments in euro transacted within the Member State in which the establishment of that institution executing the cross-border electronic payment transaction is located".

country in the future, there is no reason why banks can not extend this benefit to Serbia now on a voluntary basis.

Main Regulatory Requirements for Money Transfer Companies in Germany and Serbia

It is important to note that both Germany and Serbia have put in place a number of legal provisions restricting the types of companies that are allowed to participate in the money transfer business.

In Germany, all firms providing remittance services—collecting, processing or paying them—are required under the Banking Act to be licensed by the Federal Financial Supervisory Authority (BAFIN). In addition, and among other requirements, they must submit their audited financial statements every year to BAFIN and comply with anti-money laundering (AML) and combating the financing of terrorism (CFT) regulations. Likewise, in Serbia, money transfer companies must have a license granted by the National Bank of Serbia and are subject to strict AML and CFT standards.

In comparison to some other jurisdictions (for example, Italy, United States), Germany and Serbia do not allow money transfer companies to sign agreements with grocery stores, gas stations, pharmacies or other retail stores with large branch networks, which can collect or make remittance payments on behalf of money transfer firms. German authorities believe that money transfer operators that delegate to non-financial firms (agents) the collection of remittances can not ensure that their agents will comply with the domestic anti-money laundering and combating the financing of terrorism regulations that Germany has put in place. For this reason, money transfer companies are only allowed to establish business (agent) agreements with other licensed financial institutions. In Serbia, a similar rationale restricts the type of institutions that can become payment agents of money transfer companies. Only commercial banks are authorized to make payments on behalf of money transfer companies.

Both regulatory requirements—the need to have a license and the prohibition on using non-financial institutions as agents—have restricted the number of money transfer companies in Germany and Serbia. In April 2005, there were only 39 licensed money transfer companies in Germany, whereas in Serbia there was only one licensed company.

At the international level, discussion is continuing about the advantages and disadvantages of registration versus licensing of alternative remittance systems. In the United States and the UK, the preferred model is registration, whereas in most countries in continental Europe the preferred model is licensing. Both types of systems are equally acceptable under the Special Recommendations issued by the Financial Action Task Force (FATF) to combat terrorism financing in October 2001. However, the trade-offs (in terms of number of participants, competition, and the risks for the integrity of financial institutions) posed by both systems are important to analyze. This is a topic that requires to be analyzed separately.¹⁷

17. A detailed comparison of registration versus licensing of alternative remittance systems can be found at IMF (2005): Approaches to a Regulatory Framework for Formal and Informal Remittance Systems: Experiences and Lessons. Washington, DC. Paper available at: <http://www.imf.org/external/np/pp/eng/2005/021705.pdf>

Box 3. AML Regulation for Money Transmitters in Germany

The Federal Republic of Germany is a member of the Financial Action Task Force (FATF) and has enacted laws and rules designed to implement the anti-money laundering policies of FATF as well as directives on this topic enacted by the European Union. In 1992, section 261 of the German Penal Code, which makes money laundering a criminal offence, took effect in Germany. The Money Laundering Act (Geldwäschegesetz), which entered into force in 1993, establishes statutory duties for credit institutions and other businesses. In 2002, the Money Laundering Act was amended by several regulations that also serve as prevention against terrorist financing. Subsequently, the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht or “BAFIN”) released several regulations, which specify the requirements of the Money Laundering Act. The most important requirements are the following:

- Assignment of an Anti-Money-Laundering Officer
- Ascertainment of customer identity
- Establishment of the ultimate beneficiary
- Record keeping
- Reporting of suspicious circumstances/transactions to the authorities
- Review of the reliability of the employees
- Regular Training of the employees on Anti-Money Laundering.

Suspicious transactions have to be immediately reported to the competent law enforcement authorities including the Financial Intelligence Unit (FIU) in Germany which has been created at the Federal Investigation Office (Bundeskriminalamt). The German FIU was established on 15 August 2002 and joined the Egmont Group in June 2003.

Source: BAFIN (2005)

Another issue that Germany is confronting is that despite the prohibition on conducting money transfer businesses without a license, every year many persons or firms are found to be providing remittance services without having a license. During each one of the past five years, for instance, BAFIN has prosecuted on average 150 individuals and firms—mostly travel agencies and cargo companies—for conducting business without a license. Using their own contacts in destination countries—mostly countries with under-developed payment systems—those individuals or firms offer remittance services sometimes at lower fees than those prevailing in the formal remittance market.

Informal Fund Transfer Systems (IFTS)

Despite the wide range of instruments offered by financial institutions to send money from Germany to Serbia, a large number of Serbs in Germany still prefer to send money home through bus drivers or relatives and friends that travel to Serbia. As mentioned before, it is estimated that 50 percent of all remittance flows from Germany to Serbia occur through informal channels. Moreover, many Serbs who receive a pension from Germany travel back to Germany by car every two or three months to collect their payments in person, transporting their money in cash from one country to another.

IFTS are extensively used in the Germany-Serbia corridor, but the reasons for that are not totally clear. On the one hand, distrust in the banking sector, high fees paid per remittances transaction, hyperinflation and several years of sanctions and interruption of basic banking functions, have led to the devising of new, rapid, and unofficial channels for sending money to Serbia, outside the framework of the formal financial sector. On the other hand, the low level of bank penetration (percent of adults with bank account), limited number of ATMs, and widespread use of cash to settle retail transactions in Serbia contribute to the use of an informal system of money transfers. In addition, the close geographical distance between the two countries may also explain why people transfer money in cash. Moreover, it also appears that informal systems have an advantage over formal systems with regard to being able to maintain the anonymity of people sending and receiving money, since records on these operations are never maintained.

In this corridor, IFTS have the following characteristics:

- They are fast—the recipient can be reached within 18 to 24 hours.
- They have a more flexible pricing—mainly flat fee for certain ranges (€100–500, €500–1,000, and so forth).
- They have a proven track record because they were the only way to transfer money across the borders during the embargo.

From interviews conducted in Serbia, it has been observed that for a €500 transaction, a fee of 3 percent is applied. Fees can be subject to variations from carrier to carrier, and they can increase in a period of high instability risk. For example, during the United Nations embargo, the rate charged for transferring money to Serbia was fixed to 10 percent of the value transferred.

Bus Drivers

One of the largest IFT systems is provided by bus drivers who transport passengers from Germany to Serbia every day (see Box 5). Bus drivers personally offer money transfer services beside their driver occupation. Officially, the bus companies are not involved in this informal money transfer business. Interviews with Serbian community in Germany indicate that bus drivers do remittance business as a side business. In many cases, senders and receivers know the drivers. Under this system, bus drivers check the beneficiary's ID before handing off money to the beneficiary. A beneficiary awaits a bus at the arriving section of an international bus terminal after receiving a phone call from the bus driver.

A remittance service through a bus driver takes just one day to reach a recipient from Southern part of Germany to the northern part of Serbia. One of the major bus companies provides services from Germany to about fifteen destinations in Serbia including large cities such as Belgrade, Nis, and Novi Sad.¹⁸

Hand Delivery/Cash Couriers

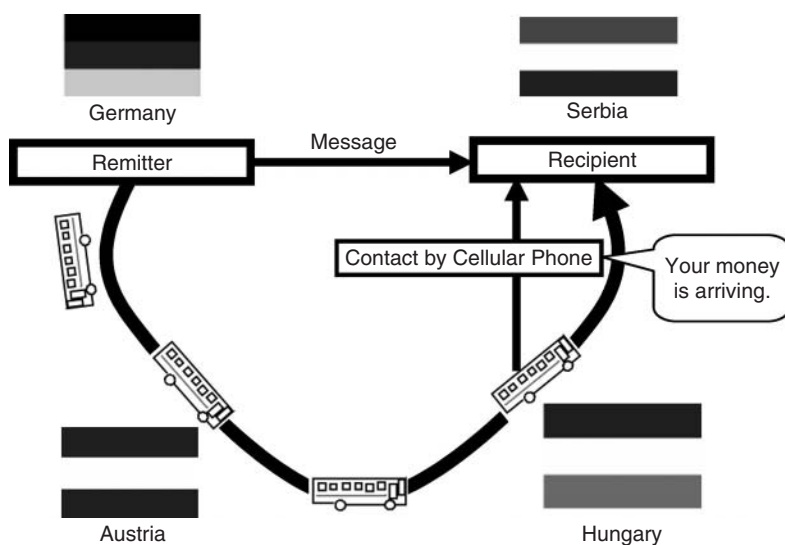
As different studies (Hernández-Coss 2004) identify cash courier and hand delivery services in different remittance corridors and regions, this type of service is also found in the

18. Touring/Eurolines. Website: <http://www.eurolines.de>

Box 4. Remittances Through Bus Drivers

This IFT system is widely used to send money from Germany to Serbia. The IFT system through bus drivers emerged as a large market player between Germany and Serbia as the war began. Due to the embargo on Serbia, money transfer to Serbia through any formal channels was banned. The only option to send money to Serbia was to ask bus drivers to take money home. Thus, the bus drivers monopolized the remittance market to Serbia and set fixed fees on this service at 10% of the amount sent.

In the Munich-Belgrade line, a bus leaves Munich at 6 PM on Thursdays and 4:30 PM on Fridays. A sender gives a bus driver an envelope with money after counting the amount of money in front of the driver. The bus driver takes the money and contacts a recipient by a cellular phone when the bus comes near to a destination where a beneficiary is located. A sender, a bus driver, and a recipient do not exchange any code or order number for confirmation.



After the war and embargo, formal remittance channels such as banks and MTOs began to be reconstructed. The increase of market players did not allow bus drivers to keep their fees. The fees are now considered a tip for their services rather than fee per se. According to interviews with bus drivers, fees are now around 3 percent of the amount transferred.



A bus driver is handing off money to a beneficiary at a bus station in Belgrade.

Source: Interviews with the Serbian community in Munich and with bus drivers in Belgrade.

Box 5. FATF Special Recommendation IX: Cash Courier

Countries should have measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments, including a declaration system or other disclosure obligation.

Countries should ensure that their competent authorities have the legal authority to stop or restrain currency or bearer negotiable instruments that are suspected to be related to terrorist financing or money laundering, or that are falsely declared or disclosed.

Countries should ensure that effective, proportionate and dissuasive sanctions are available to deal with persons who make false declaration(s) or disclosure(s). In cases where the currency or bearer negotiable instruments are related to terrorist financing or money laundering, countries should also adopt measures, including legislative ones consistent with Recommendation 3 and Special Recommendation III, which would enable the confiscation of such currency or instruments.

Source: FATF

Germany-Serbia corridor. The means frequently used for cash courier are reportedly cars. Interviews with Serbian communities and authorities revealed that these couriers and hand delivery services are provided by family members or friends who return to or visit Serbia. This type of remittance service is provided and used based on personal contacts and trust as identified in other remittance studies in different regions (Higazo n.d.; Hernández-Coss 2004).

A competitive advantage of hand delivery and cash couriers is low operational or/and travel costs defrayed by the one who actually travels (unless the operation is conducted as a business). According to Serbian law, there is no limit to the amount of foreign currency that may be brought into the country; foreigners and expatriates working and residing abroad are only required to declare such currency at the border when entering the country.

According to the officials of the Serbian Ministry of Foreign Affairs, Serbs living abroad tend to visit their relatives in their home country at least three or four times per year using

Figure 5. International Bus Terminal in Belgrade



different means (car, train, buses, or airplanes). In most cases, the frequency of the visits to Serbia is directly correlated to the geographical proximity of the hosting country.¹⁹ The distance between Munich and Belgrade is 967 Km and it is done by car or bus in less than 15 hours of travel. During their visits, Serbs normally tend to bring cash to leave with their relatives and holiday periods are considered to be one important occasion for informal money remitters. The confirmation of this tendency comes from the decreasing amount of remittances registered through the formal channels in the same periods.

From the interviews carried out with money transfer operators in Serbia, remittance flows going through the formal channel decreases in correspondence with Serbian holidays,²⁰ because people tend to carry cash directly with them into the country.

At this time, much research is needed to understand why many Serbs prefer to send money home through informal channels and what could be done to incentive them to use financial institutions to send money home. A survey may help identify and quantify how important the following factors are in preventing Serbs from using financial institutions to send money: fees, anonymity of transactions, time to make funds available in Serbia, distrust in bank institutions in Serbia, low bank penetration in Serbia, limited number of ATMs, and so forth.

19. Serbs living in Austria tend to visit their relatives in Serbia from five to six times per year, while Serbs living in Germany from three to four times, according to the Ministry of Foreign Affairs officials.

20. The main Serbian holidays are: Easter Holiday (April), Summer Holiday (July–August), and Christmas Holiday (December–February).

The Last Mile

Serbia is one of the largest remittance-recipient countries in the world, as measured by the ratio of remittances to GDP. It is estimated that in 2004 Serbia received \$2.4 billion dollars in remittances, which represented 12 percent of Serbia's GDP and 65 percent of its total exports.

Remittances have a large impact on the Serbian economy. It is believed that they have contributed to the rapid increase in bank deposits, foreign exchange reserves, private consumption, and real GDP in recent years. Moreover, central bank officials believe that remittances play an important role in the financing of small and medium enterprises in Serbia (Jelašić 2004).

To date almost no research has been undertaken to quantify and analyze the effects of remittances on the Serbian economy. Moreover, at this time it is still difficult to know to what extent remittances have increased household incomes and contributed to alleviate poverty in Serbia. There is still a lot to be done to understand the (positive as well as negative) effects of remittances in Serbia. One first step in this direction would be to improve the existing data on remittance inflows.

Another important area that requires attention is how to maximize the developmental impact of remittances in Serbia. Because a large part of remittance flows currently take place outside the financial system, the impact of remittances is limited. The developmental impact of remittances could be significantly enhanced if most remittances were channeled through financial institutions, thus increasing financial depth and the availability of resources to finance productive projects and serve the financial needs of migrants and recipient-households. Moreover, the impact of remittances could be enhanced if more investment opportunities in Serbia were available for the diaspora, in particular for those Serbs that wish to return to their home country after having worked abroad for several years.

This chapter focuses on three topics. First, it describes the data on remittances collected by the National Bank of Serbia as part of its balance of payment statistics and highlights areas that could be improved. Second, it highlights what financial products are available for remittance recipient households. Finally, it discusses possible ways to maximize the developmental impact of remittances in Serbia, based on international experience.

The Data on Remittance Inflows

According to the NBS, total remittance inflows were estimated at \$2.4 billion dollars in 2004.²¹ From this amount, \$1.2 billion dollars arrived through banks and the remaining amount through informal channels.

The figure on remittances arriving through the banks is based on reports provided by commercial banks themselves to NBS on their foreign exchange transactions. As mentioned before, commercial banks are the only institutions authorized to pay remittances in Serbia. Box 6 provides a detailed description on data collection practices by NBS.

The amount of remittances that arrive through informal channels is more difficult to estimate. Certainly, there are many ways to estimate the flow of remittances through informal channels. Some countries use household surveys or surveys at points of entry (airports, train stations, and border checkpoints) to estimate the amount of money arriving to the country (De Luna Martínez 2005).

In Serbia, money arrives through people traveling by car, bus, train, or airplane. However, people are not always required to report the amount of currency they bring into Serbia, unless the amount is above \$1,600 dollars.²² How does the NBS estimate the flow of remittances arriving through informal channels? The NBS makes its own estimations using the data received from the money exchanges operating in Serbia. At the present time, there are over 1,600 money exchanges; they are required to ask their customers about their nationality when carrying out a foreign exchange transaction. NBS estimates that 50 percent of all transactions at exchange bureaus are related to remittances and uses this coefficient as the basis to calculate remittances arriving through informal channels.

Based on conversations with the officials from the Balance of Payments Division at the National Bank of Serbia, from the \$2.34 billion exchanged in the money exchanges in Serbia in 2004, more than \$1.2 billion is believed to derive from remittances that reach the country informally through friends and relatives, bus drivers, travel agencies, etc. Estimates based on data from the NBS on the total amount of remittances and the flows entering Serbia through banks suggest a declining trend in the use of informal channels in recent years, as shown in the following figure, as shown by the decline of informal flows from 75 percent of all remittance flows in 2001 to 47 percent of such flows in 2004.²³

Although these figures suggest that it is possible that Serbs abroad are shifting their habits in sending remittances from informal to more formal means, as confidence in the banking systems continues to improve, it is premature to draw conclusions given the lack of detailed historical data over a longer period.

21. Data provided by the Balance of Payments Unit of the National Bank of Serbia.

22. As of November 16, 2005

23. This figure has been determined based on the assumptions of the number of emigrants abroad and the number of relatives that remained in the country and to whom they regularly sent money. *Source:* NBS.

Box 6. Data Collection by the National Bank of Serbia

The National Bank of Serbia is responsible for collecting the data and monitoring the remittance flows into the country since 1973. Banking institutions are required to submit to the NBS official reports on a monthly basis concerning data on:

- Basis for crediting citizens' foreign exchange accounts with foreign exchange
- Amount
- Currency
- Country of origin

According to the National Bank of Serbia, the methodology used for the collection of data on workers' and migrants' remittances is consistent with the methodology used for compiling the monthly balance of payments statistics and it is based on the IMF Balance of Payment Manual, Fifth Edition.

Banks authorized for international transactions are the source of monthly data for the statistics on workers' and migrants' remittances that comprise:

- Foreign exchange remittances from abroad in favor of domestic natural entities-paid in dinar
- Foreign exchange remittances in favor of foreign exchange accounts of domestic natural entities
- Workers' foreign exchange remittances in favor of legal entities
- Rents, pensions, disability payments and others social contributions
- Inheritance, allowances and other gifts and assistance

Data on workers' and migrants' remittances are shown in U.S. dollars. From the reports submitted by commercial banks officially registered to receive and deliver remittances, it is possible to identify the source country and the number of transactions, but there are limitations in defining the average amount and the frequency of remittance transactions.

In addition, National Bank of Serbia publishes (for some banks) the fees and terms and conditions under which money transfers are processed in order to give Serbian residents better information about the products available in the marketplace.

Source: National Bank of Serbia

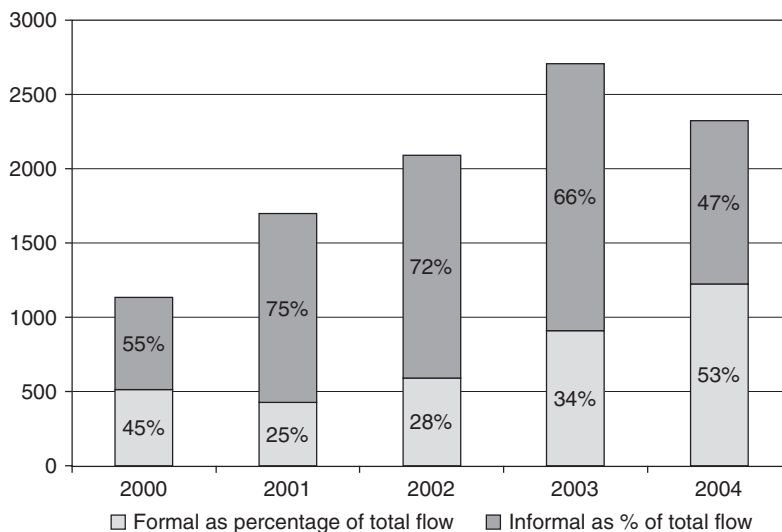
Another issue that needs further research is to determine what factors explain the growth in remittance flows between 2000 and 2004. Is this growth driven by a growing migration of Serbs, exchange rate movements, or simply by improvements in the way flows are measured by NBS?

Statistics on remittances are important for the formulation of macroeconomic policy, especially because Serbia has a large part of its population living abroad. Remittances can affect the level of savings, investment and consumption. Moreover, large remittance inflows may affect the exchange rate and lower export competitiveness. Data on remittances constitutes an important tool to monitor cross-border flows of money and for timely detection of money laundering or other illicit activities that may undermine the integrity of a financial system.

Looking forward, it would be useful to continue improving the data on remittance inflows, in particular remittances that arrive through informal channels. It would also be useful to measure how Serbs use the money they receive from their relatives overseas.

What proportion goes to consumption, savings, and investments? Are remittances being used for education, health, and housing expenditures? Are remittances playing a role in

Figure 6. Total Inflow of Workers' Remittances to Serbia 2000–2004 (US\$ million)

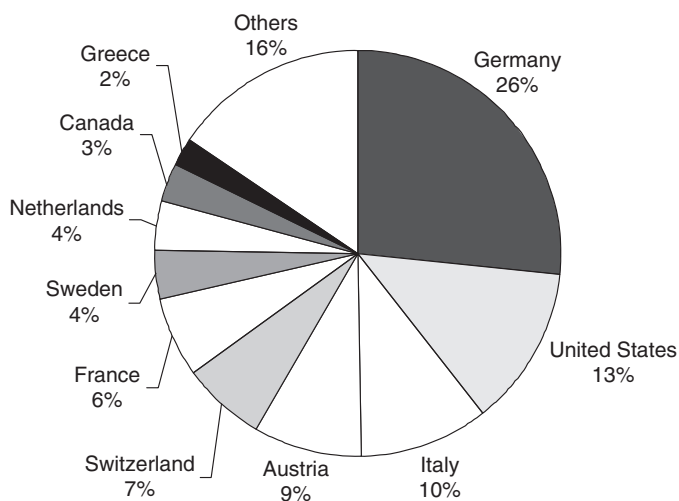


Source: Bank staff own calculations based on data from NBS.

raising households above the poverty line and increasing their disposable income after meeting basic needs?

It is also important to understand the factors driving remittances in the medium and long terms and examine whether remittances are correlated to the number of people living overseas, the age of the Serbian diaspora (whether remittance flows tend to decline as the Serbian

Figure 7. Origin of Western Union's Inbound Money Transfers in 2004



Source: Western Union (2005)

diaspora becomes older, families reunify in the host country, and the new generations lose their ties with Serbia), to the economic performance of Serbia (whether remittances increase when Serbia is not doing well to compensate for household income losses during recessions).

It is important to keep in mind that Serbia is not just a recipient of remittances, but also the source of remittances for other neighboring countries. Because of the political events in the region in the past years, Serbia now hosts a large number of displaced persons and refugees from Bosnia and Herzegovina, Kosovo, and Croatia, as well as the Roma population. Serbia may wish to consider compiling data on remittance outflows. This may contribute to a better understanding of the net effect of remittances in Serbia and the size and characteristics of the remittance corridors that originate in Serbia.

In addition to the need to improve data on remittances, there is a need to improve the data on the number of people living overseas. At this time, existing data covers only a few countries. Better data on migration is important in order to understand migration trends, the forces driving it, and the medium and long-term effects on Serbia, including the impact of the emigration of skilled or unskilled labor force for Serbia and the separation of families.²⁴ Equally important would be to understand what percentage of the Serbian diaspora is expected to return to Serbia in the following years and design adequate programs for their reintegration in Serbia.

Remittances and the Financial System

The rapid growth in the volume of remittance inflows to Serbia coincides with a period of rapid growth of deposits in the banking system. According to the National Bank of Serbia, deposits of residents (citizens) at banking institutions increased from 22 to 140 billion dinars (US\$328 million to US\$2.5 billion dollars) between December 2001 and March 2004. The largest increase was in foreign currency deposits, which rose from 19 to 124 billion dinars (US\$283 million to US\$2.2 billion dollars) during the same period. This trend reflects a growing confidence in the banking system by the Serbian population, even though confidence still remains fragile as evidenced by the high portion of deposits in foreign currency, most of which are short-term deposits.

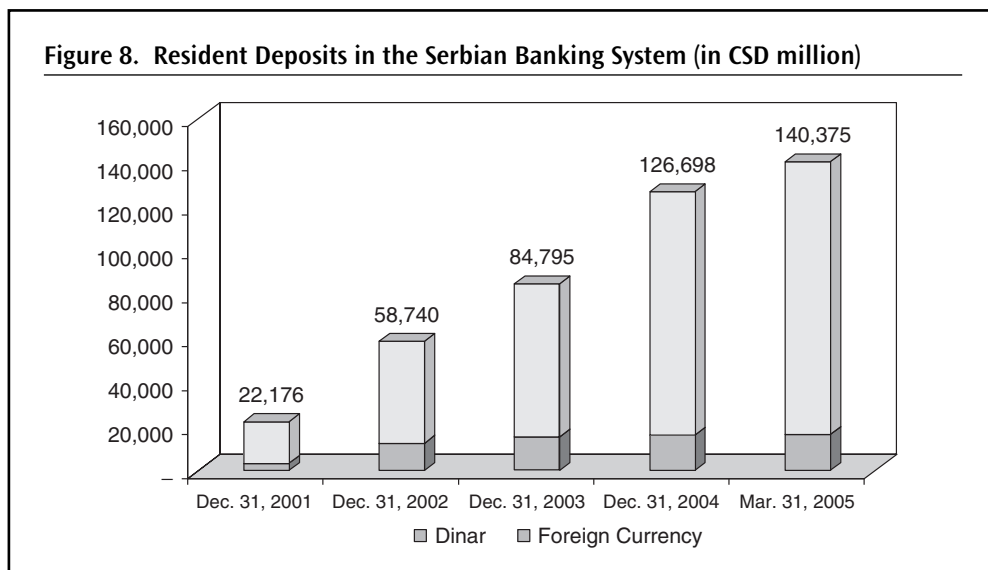
Table 7. Payment of Money Transfers into Serbia by Western Union in 2004*

Cities	Percentage (%)
Beograd	15.31
Novi Sad	4.75
Kragujevac	3.45
Zrenjanin	3.22
Krusevac	3.21
Novi Pazar	2.89
Nis	2.22
Pancevo	2.01
Pozarevac	1.92
Smederevo	1.92
Sabac	1.50
Other cities	57.60

*Based on the number of transactions originated in Germany.

Source: Western Union (2005).

24. According to the National Statistics of Serbia, at the end of 2004 approximately 20 percent of Serbian citizens were living overseas, in particular in Germany, the United States, Switzerland, Austria, Italy and France.



Source: National Bank of Serbia.

In principle, remittances can have an important multiplier effect in developing countries when they become savings in formal institutions and are accessible to other economic agents. At this time, however, it is difficult to determine whether, and to what extent, there is a correlation between the growth in remittances and bank deposits in Serbia, because existing information does not reveal the percentage of remittances that arrive through banks and stay in the banking system.

Despite the positive developments in the banking system in recent years, bankers in Serbia, as well as most economic analysts, believe that there is plenty of mattress money to be attracted into the banks. Moreover, given the large number of remittance flows that continue arriving through informal channels, and the size of the informal economy, the scope for further deposit growth and financial depth is enormous.

One of the major challenges for policymakers in Serbia is how to promote the use of banking institutions for money transfers in the first and in the last miles.²⁵ Serbian banks are in the remittances business essentially for three reasons:

- It is a profitable activity for the banks, given the fees charged to beneficiaries.
- Remittances constitute a cheap and important source of FX income for the banks.
- It is an opportunity for the banks to cross-sell other financial products such as credit and debit cards and consumer loans.

25. Unlike other jurisdictions, access to banking services is not an issue for documented migrants in Germany. However, in order to receive a remittance payment through a bank (except for payments received in behalf of WU), it is essential for the recipient to have a bank account. The requirements to open a bank account are simple and the cost is low. In Serbia, it goes from being free of charge to €5, to open and maintain a deposit account. Despite the simple requirements for accessing the financial sector, Serbian people are not yet very confident about depositing their money in a bank (especially if it is a Serbia State-owned bank) due to past experience, as explained earlier.

Box 7. Housing Loans Using Remittances in Mexico and Peru

In 2004, three private finance companies in Mexico (Hipotecaria Su Casita, Hipotecaria Nacional and Crédito Inmobiliario) started to provide mortgage loans to Mexican citizens living in the USA. Migrants can acquire a house in Mexico with a value of up to 1.7 million pesos (\$150,000 dollars). Credits are denominated in Mexican pesos and for up to 25 years with both fixed and variable interest rates. During 2004, a total of 343 loans were granted. For 2005 and 2006, companies expect to grant 600 and 1,000 more credits, respectively.

Source: <http://www.shf.gob.mx/files/pdf/PROGRAMA%20MIGRANTES.pdf>

Peru's housing program Mivivienda is expected to finance the purchase of 15,000 homes via remittances from abroad in the following three years, which will boost the Peruvian economy. A large number of accounts have been opened in Peruvian banks lately, to be used later for purchase of a home via a loan from Mivivienda. The remittances sent to Peru allow the receivers to improve their credit risk profile and to qualify for a Mivivienda loan. Some four million Peruvians receive remittances from relatives living abroad. In 2004, the remittances to Peru stood at some \$1.5 bln, according to official data.

Source: <http://www.mivivienda.com.pe/portal/>

Banks that pay remittances in Serbia on behalf of Western Union encourage beneficiaries to open bank accounts. Lately, according to the market players, there has been an increase in the number of bank accounts opened in the country, a trend that may be reinforced as confidence in the banking system continues to improve and fees for bank services decline.

Another major challenge faced in Serbia is the need to develop new products to better serve the financial needs of migrants and remittance-recipient households. In other emerging market economies, financial institutions are developing financial products specifically tailored for remittance recipient households. Private financial institutions are starting to offer migrants working abroad a wide range of financial services, including commercial loans and even mortgage products. Some financial institutions in Albania, Colombia, Mexico, Peru and Sri Lanka are offering migrants mortgage products to acquire real estate properties in their own country while they live and work abroad. Moreover, even some retail stores in El Salvador offer migrants the option to purchase goods that are delivered to their relatives in their home countries.

The supply of these types of products does not exist in Serbia yet. For Serbs living and working abroad it is extremely difficult to find financing for purchasing a home in Serbia. Similarly, for recipients of remittances in Serbia, it is difficult to use the cash flow derived from their remittances to obtain a loan or any other product (for example, private pension, life and non-life insurance, and so forth) using the remittance flow as collateral or income source. There is clearly a need to foster financial innovation to allow both migrants and recipients to access more financial products in Serbia.

Finally, another issue is the use by banks of securitization of future remittance flows as a means to raise external financing and develop financial instruments around this type of transaction. From a financing perspective, workers' remittances constitute a future flow receivable—as credit card vouchers, oil or gas exports, telephone receivables, and so forth—that can be collateralized by financial institutions to raise additional capital (Ratha and Kethar 2004). It is a way for banks in developing countries to borrow hard currencies

by issuing bonds (collateralized by the future flow of remittances). Moreover, the proceeds of securitization provide banks additional resources to finance productive projects.

So far, only few banks in developing countries—Brazil, El Salvador, Mexico, and Turkey—have securitized their future remittances flows. Banco do Brazil closed a \$300 million dollar securitization transaction in 2001, Banco Cuscatlán in El Salvador closed a \$125 million dollar transaction in 2003, Banamex of Mexico closed a \$200 million dollar transaction in 1999, and since 1999 several banks in Turkey have securitized a part of their remittance transactions. Given the large volume of remittance inflows received by Serbia, securitization of remittance flows remains an unexploited source of additional financing for Serbian banks.²⁶

Maximizing the Developmental Impact of Remittances in Serbia

In addition to attracting more remittance flows into the financial system, one of the most important challenges for Serbia is to create an enabling environment to leverage remittance flows by offering migrants a wide range of opportunities to invest in Serbia (for example, providing complementary financing to acquire real estate, creating mechanisms to channel funds to finance small infrastructure projects in their hometowns, encouraging migrants to become shareholders in privatized companies, establishing funding programs for the establishment of new small and medium enterprises by migrants returning to Serbia, and so forth).

One possibility to consider could be the establishment of hometown associations (HTAs). These are informal associations of emigrants who come from the same town or region in home countries. In recent years, they have spread across the United States and have enjoyed some success in the channeling of remittances, building productive networks with hometowns and expatriate investors, and collaborating on the resolution of practical issues with home governments. One of these types of program exists in the U.S.-Mexico corridor. It is called the “3x1” program. Under this program, community remittances are channeled into small-scale development projects in the recipient country—paving roads, building hospitals and schools—and every dollar sent back from the migrants, is matched by three dollars from the federal state and municipal governments, to fund project and foster development impact of remittances (see Hernández-Coss 2004).

Particular efforts are needed to encourage Serbs planning to return home after having worked abroad for several years to transfer a part of their accumulated wealth and financial assets to Serbia (for example, through tax exemptions, providing complementary financing for establishing new enterprises in Serbia, and so forth). At the present time, there is no data on the wealth and savings of the Serbian diaspora. Moreover, there are no estimates on the number of Serbs that may retire and decide to return to Serbia in the following years.

It is important that Serbia puts in place attractive mechanisms to encourage its citizens that decide to return to invest in Serbia. Not less important is also the need to put in place adequate mechanisms to enable Serbia to benefit from the social and intellectual capital of its citizens returning home. Around the world, there are multiple schemes whereby

²⁶ For foreign banks operating in Serbia securitization may not be as attractive, because they can raise money from their parent companies at low cost.

authorities in home and destination countries put together programs for the re-integration of migrant workers into their home countries. In some cases, programs include financing and advisory services for the establishment of new small and medium enterprises. One example is the Invest in Mexico Program, created by Nacional Financiera (NAFIN), Mexico's largest development bank for all migrant workers in the United States willing to invest in their home communities in Mexico. The program provides free technical assistance to migrants and their families in order to establish small businesses in Mexico, such as restaurants, retail stores, gas stations, pharmacies, and participate in a large number of franchises. Assistance is provided at no cost and it includes advice to prepare a business plan, registration of new businesses, and other advisory services. Moreover, the program also includes financing for new enterprises. The program is jointly financed by NAFIN, local governments in Mexico and the Inter-American Development Bank.²⁷

Some of the above projects can be established in cooperation with the authorities and financial institutions of the countries where the migrants work, as both parties may have an interest in promoting the re-integration of migrants into Serbia and the productive use of the skills they acquired during their stay abroad.

At this time, the Serbian government, conscious of the high investing potential of Serbian migrant-workers, is working on developing a comprehensive package of laws and regulations to create favorable conditions for investments in the Serbian economy (in effect, a reduction of taxes). Moreover, in 2004 a new Ministry for Diaspora was established. Certainly, these are positive steps that will contribute to enhance the impact of remittances for Serbia. However, much more needs to be done.

27. Source: <http://www.nafin.com/portalnf/?action=content§ionID=5&catID=349&subcatID=350>

Conclusions and Policy Recommendations

Serbia has become one of the largest remittance-recipient countries in the world. Given the large and growing amount of remittance flows to Serbia, it is becoming increasingly important for policymakers in Serbia to better quantify these flows and understand their characteristics, trends, impact on poverty, and long term sustainability. Moreover, it is becoming increasingly important for Serbian authorities to design and put in place mechanisms to encourage Serbs living abroad to invest in their home country and contribute to Serbia's economic growth.

This study has found that one of the major challenges faced by Serbian authorities is related to the large size of remittance flows that take place outside the financial system. Despite the modern infrastructure existing in Germany and Serbia to transfer international payments through financial institutions, many Serbs in Germany prefer to bring the money in cash when they visit Serbia, send money home through friends or relatives traveling to their home country, or send the money through bus drivers, who pick up the money in Germany and deliver it in Serbia the next day. It is estimated that at least 50 percent of all flows to Serbia occur through informal channels.

There are various reasons that explain why a large part of remittance transactions take place through informal channels instead of financial institutions, such as the low level of competition in the marketplace, high fees charged by most financial institutions, low (but growing) level of bank penetration in Serbia, insufficient (but growing) number of ATMs in Serbia, and limited (but increasing) confidence of Serbs in their banking system.

How can policymakers in Serbia encourage citizens living overseas to use financial institutions to send money home? What could be done to increase competition in the remittance marketplace, promote a reduction in fees, and encourage financial institutions

to develop new remittance products? What instruments could be established to encourage the Serbian diaspora to invest their money in their home country or support the development of their hometowns in Serbia?

There are various specific actions that Serbian authorities could consider to advance towards a more mature and formal corridor with more competition, lower fees, and more remittance products and services for customers, as discussed below.

Promoting More Competition

Competition in this corridor could be enhanced by:

- *Encouraging European banks operating in Serbia to voluntarily apply the EU Regulation No. 2560/2001/EC for money transfers to Serbia.* In the European Union, the fees charged by financial institutions to their customers for money transfers in euros between EU countries can not be higher than the fees charged for domestic money transfers. Since several banks in Serbia are owned by banks established in EU countries, Serbia may request those banks to voluntarily apply the same cap on remittance fees to all remittance transfers originated in the EU to Serbia, thus bringing the fees to the same levels that prevail in the European Union. Moreover, since Serbia desires to become an EU member country in the future, there is no reason why banks can not extend this benefit to Serbia on a voluntary basis now, provided it does not affect the level-playing field of banks in Serbia.
- *Encouraging Serbian banks to open branches in Germany.* At this time, banks in Serbia act as payment agents of foreign banks or money transfer companies. Although the international restrictions prohibiting Serbian banks from having branches in Germany were lifted in 1995, Serbian banks have not re-opened their branches in Germany since then. Serbian banks could consider expanding their operations to Germany, as banks in other countries do—such as banks from Croatia and Turkey—in order to directly attract more deposits from the Serbian diaspora and offer their remittance services from the beginning to the end of the transaction, thus contributing to increasing competition and lowering fees in this corridor.
- *Relaxing entry requirements for new money transfer companies in Serbia, while ensuring compliance with the AML/CFT regime.* At this time, only one international money transfer company is operating in Serbia. Authorities in Serbia may consider relaxing legal requirements in order to encourage the entrance of more international money transfer companies and possibly the establishment of new local firms. Specifically, financial sector legislation should recognize money transfer companies as a separate category and type of financial intermediary and establish the minimum licensing requirements they must comply with. This would facilitate the entrance of new market players in Serbia, thus bringing more competition, a decline in fees, and new remittance products.
- *Initiate a policy dialog with counterparts in Germany.* Surprisingly, remittances are not a topic in the policy agenda between authorities in Germany and Serbia yet. Given the large remittance flows in this corridor, dialog between authorities is

important in order to identify issues of common interest (such as low competition and high fees) and remove the obstacles that hinder the establishment of a formal and mature remittance corridor between both countries. International experience has shown how much progress can be achieved in a short period of time when financial authorities discuss and cooperate in the formalization of a remittance corridor. The U.S.-Mexico case is a clear example on how dialog and cooperation between central banks and other financial sector authorities facilitated interconnectivity of payment systems and allowed migrant workers to access financial services in the United States, leading to growing competition and a rapid decline in remittance fees.

- *Disclosure of remittance fees.* It is important that authorities in Germany and Serbia encourage all institutions to disclose all the fees they charge to their customers in a money transfer operation. Disclosure of remittance fees would bring consumers' attention and private sector interests in seeking opportunities in the market. In addition, authorities in Serbia may consider publishing this information in major newspapers in Serbia and local magazines where the Serbian diaspora is located, informing the public about the products and related fees for sending/receiving money from overseas on a regular basis.

Fostering the Use of Formal Remittance Channels

- *Facilitate the use of debit cards for remittance transfers.* In practice, the use of dual debit cards can provide a rapid, secure and inexpensive way for transferring remittances to Serbia, as it is already the case in many other corridors. Under this scheme, any migrant with a bank account overseas could send a debit card (associated to its account) to its relative in Serbia, who can use the debit card to withdraw cash at any ATM linked to CIRRUS or any other international payment system. Generally, the fees for withdrawals at ATMs are low and exchange rates highly competitive. In certain jurisdictions, such as the United States, banks already offer account holders remittance sub-accounts through which they can control the amount of funds available for withdrawal at the recipient country. In the long term, the use of debit cards for remittance payments may also contribute to the modernization of the payment system in Serbia by encouraging people to use their cards not just to withdraw cash at ATMs, but also to pay for goods and services, thus reducing the use of notes and coins.
- *Encourage the establishment of multi-currency ATMs.* Currently, automated-teller machines in Serbia allow customers to withdraw funds only in local currency. It would be useful to establish ATMs that allow cash withdrawals in U.S. dollars and Euros. This would encourage people that wish to have their money in international currency to use ATMs, because customers would be able to withdraw funds from an account at a bank located in another jurisdiction rapidly and at a minimum cost.
- *Increase public awareness.* It is important that authorities—in collaboration with financial institutions—launch an information campaign to inform the public about

the different ways to receive money from overseas. The campaign could also be targeted to the diaspora overseas to inform them about the best vehicles to send money home or make investments in Serbia.

Maximize Developmental Impact of Remittances

- *Open new opportunities for the diaspora to invest in Serbia.* At an international level, there is a wide range of instruments to encourage migrants to channel resources to finance productive projects in their home countries, such as direct contributions to charities, establishment of hometown associations, and investments in capital market products. Moreover, governments usually try to attract investments from the diaspora by providing tax breaks for their investments and facilities for land purchases, among others. Serbian authorities should consider the establishment of similar schemes to attract more investments from the Serbian diaspora.
- *Foster the creation of new financial products tailored to the needs of remittance-recipient households.* A large number of families in Serbia receive remittances on a regular basis. Unfortunately, families in Serbia can not use this type of regular income to access other types of financial products that would enhance their well-being in the medium term, such as personal loans, credit cards, mortgages, life insurance and non-life insurance, pensions, and so forth, because the law does not allow institutions to recognize this type of income. It would be useful to remove any legal obstacle that prevents the recognition of remittance income as regular cash flow so that more households can access financial services. Of particular interest for Serbia could be the experience of other jurisdictions (such as Mexico and Peru) in which financial institutions allow senders and recipients of remittances to acquire real estate properties, using remittances as the basis for the operations. The potential for this type of operation is large, because many financial institutions in Serbia are owned by institutions that operate in other EU countries, as well. In practice, many financial institutions are already serving both the senders and recipients of remittances in two different countries at the same time.
- *Securitization of remittance flows by Serbian banks.* From a financing perspective, workers' remittances constitute a future receivable—as credit card vouchers, oil or gas exports, telephone receivables, and so forth—that can be collateralized by financial institutions to raise additional capital. It is a way for banks in developing countries to borrow hard currencies by issuing bonds (collateralized by the future flow of remittances). Moreover, the proceeds of securitization provide banks additional resources to finance productive projects. Serbian banks could consider this type of operations to increase the availability of funds to finance new projects.

Improving Data on Remittances

It is particularly important to improve the data on remittances to understand the factors driving them and examine whether remittances are correlated to the number of people living overseas, the age of the Serbian diaspora (whether remittance flows tend to decline as the Serbian diaspora becomes older and new generations lose their ties with Serbia), to the

economic performance of Serbia (whether remittances increase when Serbia is not doing well to compensate for household income losses during recessions). Equally important would be to analyze the geographical distribution of remittances throughout the country. There are various ways to improve the quality of data, which could be considered by authorities, such as:

- *Surveys at points of entry to better estimate informal remittance flows.* It is important to improve the way remittances arriving through informal channels are quantified. In this regard, the implementation of a survey at points of entry in Serbia would help better estimate informal flows, their origin, and their characteristics.
- *Survey with the Serbian diaspora.* It would be useful to quantify to what extent the following factors discourage the Serbian diaspora from using financial institutions to send money home: Fees, anonymity of transactions, distrust in local banks, time required to make resources available in Serbia, lack of information about remittance products, etc.
- *Household surveys.* Household surveys would help to understand what percentage of households in Serbia receive remittances, how much income they receive per month and year, how large is the remittance-income in total remittance disposable income, what proportion of remittances goes to consumption, education, health spending, and so forth. Surveys could also help understand how people spend the money and what could be done to maximize the benefits of remittances for households in both urban and rural areas.
- *Improve data on Serbian diaspora.* Because a large part of the Serbian citizens live overseas, there is a need to better estimate the size, composition and characteristics of the Serbian diaspora. At this time, the size of the Serbian diaspora in the world is unknown, because statistics cover only partially the registered citizens that have emigrated overseas, but statistics do not take into account persons of Serbian origin that do not have the citizenship or expatriates that acquired other nationalities and did not renew their Serbian passports as they expired. It is important to better estimate the size of the Serbian diaspora and its correlation with the level of remittance inflows in Serbia.
- *Improve data and analysis of migration patterns.* It is also important to identify the main migration patterns, and the forces driving migration, as well as the impact of migration of skilled or unskilled labor force for the Serbian economy and for particular regions within Serbia.
- *Build data on remittance outflows in Germany.* Germany could consider publishing detailed data on remittance outflows on a periodical basis. At this time, the remittance data published by Germany is aggregated and is not possible to identify the specific countries to which remittances are transferred. Being the country with the largest number of foreigners in Europe, Germany is also one of the largest sources of remittances in the world. Unfortunately, Germany does not disclose any data on remittance outflows, even though some of the data is contained in the reports provided by financial institutions and money transfer companies to BAFIN. Public disclosure of this data would contribute to understand the size and other characteristics of various remittance corridors that originate in Germany.
- *Compile data on remittance outflows in Serbia.* Serbia is not just a recipient of remittances, but also the source of remittances for other neighbor countries. Because of

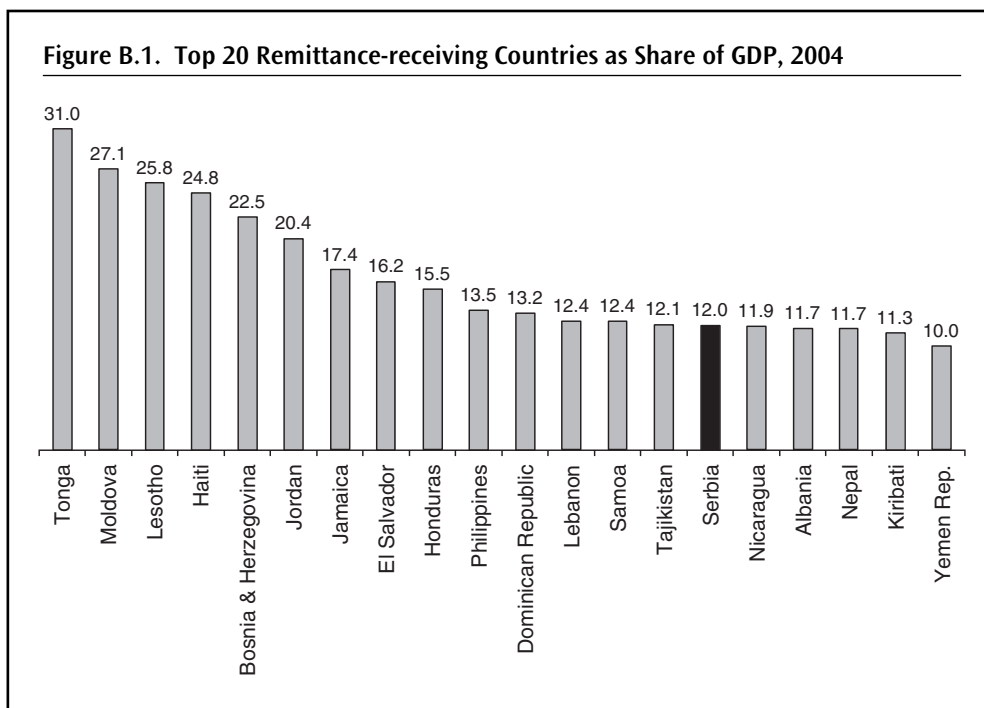
political events in the region in the past years, Serbia now hosts a large number of displaced persons and refugees from Bosnia and Herzegovina, Kosovo and Croatia, as well as the Roma population. Understanding remittance outflows from Serbia to other countries will be important to assess the net effect of remittances in Serbia.

Clearly, simultaneous efforts on various fronts—not just by the central bank—are needed to improve the development impact of remittances in Serbia and establish a secure, formal, and mature remittance corridor. To address all these challenges, Serbia could consider the convenience of establishing a national policy on remittances with collaboration from the private sector and the diaspora itself. A national policy on remittances could provide the framework under which financial sector authorities, migration authorities, poverty alleviation agencies, and ministries of foreign affairs, local authorities, among others, could coordinate their efforts towards the achievement of common goals. In this way, Serbia may be joining the increasing number of emerging economies that receive large remittance inflows and have mechanisms in place to maximize their developmental impact.

Key Characteristics of the Corridor

	Germany	Serbia
General		
Population (2004)	82.5 million	8.1 million
GNI per capita (US\$ current, 2004)	30,120	2,620
Financial Sector		
Number of bank branches (2003)	37,335	Not available
Number of banks (2003)	2,465	43
Inhabitants per branch	2,100	Not available
Number of MTO outlets	Not available	1,122
Inhabitants per MTO outlet	Not available	7,219
Remittances		
Total remittance flows to Serbia	\$2.4 billion	
Remittances received in Serbia as % of GDP (2004)	12.0%	
Remittance flows from Germany	\$476 million	
Average remittance amount	€300–500 (per transaction)	
Informal remittances as % of total remittance flows	50%	
Main types of IFT systems	Cash-courier (Bus drivers)	
Migrants		
Number of Serbs and Montenegrins in Germany (2003)	579,891	
Number of Serbs and Montenegrins working and subject to social security in Germany (2003)	165,255	
Estimates of number of foreigners in Germany	7.3 million	
Use of Remittances		
Consumption, purchase of real estate, investments		
Main Factors (Incentives) to Choose Informal Channels		
<ul style="list-style-type: none"> ■ Limited trust of Serbs in their banking institutions ■ Cost (avoiding high fees for using remittance products offered by formal financial institutions) ■ Limited level of bank penetration in Serbia 		

Top 20 Remittance-Receiving Countries as Share of GDP, 2004



Source: IMF and World Bank.

Western Union Locations in Serbia

Western Union's Sub-Agents in Serbia and Montenegro in April 2005

1. Agrobanka A.D, Beograd
2. Aik Banka A.D, Nis
3. Atlas Banka A.D, Beograd
4. Atlasmont Banka, Podgorica
5. Centrobanka A.D, Beograd
6. Continental Banka A.D, Novi Sad
7. Credy Banka A.D, Kragujevac
8. Crnogorska Komercijalna Banka A.D, Podgorica
9. Cacanska Banka A.D, Cacak
10. Delta Banka A.D, Beograd
11. Eksim Banka A.D, Beograd
12. Euromarket Banka, Podgorica
13. Hypo Alpe-Adria Bank A.D., Beograd
14. Jubanka A.D, Beograd
15. Jugoslovenska Banka Za Medunarodnu
16. Ekonomsku Saradnju A.D, Beograd
17. Komercijalna Banka AD, Beograd
18. Komercijalna Banka AD, Budva
19. Komercijalna Banka AD Flavna Filijala, Krusevac
20. Kosovsko-Metohijska Banka A.D, Zvecan
21. Kulska Banka A.D, Novi Sad
22. LHB Banka, Beograd
23. Metals Banka A.D., Novi Sad

24. Nacionalna Stedionica Banka A.D, Beograd
25. National Bank of Greece S.A., Belgrade Branch
26. Niksicka Banka A.D., Niksic
27. Niska Banka A.D., NIS
28. Nova Banka A.D, Beograd
29. Novosadska Banka A.D, Novi Sad
30. Panonska Banka A.D, Novi Sad
31. Pljevaljska Banka A.D, Pljevlja
32. Pogdoricka Banka A.D, Podgorica
33. Posta Crne Gore
34. Privredna Banka A.D, Beograd
35. Procredit Banka A.D, Beograd
36. Raiffeissen Bank A.D, Beograd
37. Vojvodjanska Banka A.D, Novi Sad
38. Volksbank AD., Belgrade
39. Zepter Banka A.D, Beograd

Figure C.1. Western Union's Coverage in Serbia and Montenegro



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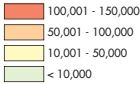
Trees*	Solid Waste	Water	Net Greenhouse Gases	Electricity
463	21,693	196,764	42,614	79,130
<small>*40' in height and 6-8" in diameter</small>	Pounds	Gallons	Pounds	KWH



MAP 1

EUROPE SERBS* LIVING IN GERMANY, 2003

8,443 NUMBER OF SERBS* LIVING IN GERMAN STATES:



27,858 NUMBER OF SERBS* LIVING IN SELECTED GERMAN CITIES:

← **967 km** DRIVING DISTANCES

(These driving distances are in kilometers using motorways and mountain roads that are open all year, or through train tunnels that take cars.)

- ⊗ NATIONAL CAPITALS
- ⊙ STATE, REPUBLIC OR PROVINCE CAPITALS
- ⋯ STATE BOUNDARIES (Germany)
- ⋯ PROVINCE BOUNDARIES (Serbia & Montenegro)
- REPUBLIC BOUNDARY (Serbia & Montenegro)
- INTERNATIONAL BOUNDARIES



*Includes Montenegrins



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Serbia has become one of the largest remittance-recipient countries in the world. It is estimated that in 2004 Serbia received US\$2.4 billion dollars in remittances from Serbian workers in Germany, the United States, Austria, Switzerland, Italy, and other countries. This amount represented 12 percent of Serbia's GDP.

This report provides an overview of remittance flows from Germany to Serbia and analyzes why a large part of remittance transfers take place outside financial institutions. The study presents a series of recommendations on needed policy changes to facilitate the transfer of remittance flows from the informal channels to licensed or registered financial institutions, thereby maximizing the developmental impact of remittances, reducing remittances fees, improving data collection practices, and strengthening the regulation and supervision of the money transfer industry.

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